



# Direct Loans—Money for School Directly to You

If you've decided to borrow money to help pay for your education after high school, the U.S. Department of Education offers a simple way to get a loan: the **William D. Ford Federal Direct Loan Program** ("Direct Loans" for short). Here are some of the benefits of this program:

- You will borrow money directly from the federal government without having to find a bank (you'll receive your funds through your school). So, you'll get your money much faster.
- You'll have only one lender to deal with (the U.S. Department of Education) once you begin repayment. Your loans will never be sold.
- You can select the repayment plan that's right for your financial circumstances.
- You can change repayment plans if your financial circumstances change.

For 1995-96, approximately 1,350 schools participated in the Direct Loan Program. Check with your school to see if it participates for 1996-97. If it doesn't, you may qualify to borrow under the Federal Family Education Loan (FFEL) Program, which includes the Federal Stafford Loan Program. If you've already gotten an FFEL, you may—under certain circumstances—convert it to a Direct Loan through the Federal Direct Consolidation Loan Program. (See page 26 for more information about consolidation.) Check out your options at your school's financial aid office.

*This booklet will give you the basic information you need about Direct Loans. You'll learn about the types of Direct Loans, how much you can borrow, how to apply for a loan, how you'll be paid once you're approved for a loan, and what repayment options you have. You'll learn what to do if you're having trouble making your loan payments and what your rights and responsibilities are as a borrower. **Save this booklet—it can answer future questions.***



## Types of Direct Loans

There are four types of Direct Loans:

- **Federal Direct Stafford/Ford Loans**—also called Direct Subsidized Loans. “Subsidized” means the federal government pays the interest on these loans while you’re in school at least half time and during grace periods and deferments (postponements of repayment). You have to demonstrate financial need to receive this type of loan.
- **Federal Direct Unsubsidized Stafford/Ford Loans**—also called Direct Unsubsidized Loans. The federal government doesn’t pay the interest on these loans while you’re in school, in a grace period, or in deferment. You can get an Unsubsidized Loan regardless of financial need.
- **Federal Direct PLUS Loans**—for parents with good credit histories who want to borrow for their dependent students.<sup>1</sup>
- **Federal Direct Consolidation Loans**—one or more federal education loans combined into a new Direct Loan. Only one monthly payment is made to the U.S. Department of Education. (See page 26 for more information.)

<sup>1</sup> You’re a **dependent** student if you are **NOT** one of the following: at least 24 years old by December 31, 1996, married, a graduate or professional student, someone with legal dependents other than a spouse, an orphan or ward of the court, or a veteran. If you **DO** meet one of these conditions, you’re an **independent** student, which means you report only your own income and assets (and those of a spouse) when applying for financial aid. Parents of independent students are not eligible for Direct PLUS Loans.



## Loan Amounts

### *Limit per Academic Year*

The maximum amount you may borrow each academic year depends on

- your year in school
- the length of your academic program
- whether you're a dependent student or an independent student

The chart on the following page shows the maximum annual and total amounts you may borrow.

The amount you may borrow each academic year is also limited by

- your school costs
- the amount of other financial aid you'll receive
- (in the case of Direct Subsidized Loans) the Expected Family Contribution (EFC). The EFC—the amount you and your family are expected to pay from your own resources—is used in determining your financial need. Your financial need is used to decide the amount of your Direct Subsidized Loans. Your school can explain how your EFC is calculated.

## Borrower's Academic Level

	Dependent Student		Independent Student	
	Total Amount Subsidized & Unsubsidized	Base Amount Subsidized & Unsubsidized	Additional Amount, Unsubsidized Only	Total Amount Subsidized & Unsubsidized
<b>1st year undergraduate:</b>				
full academic year	\$2,625	\$2,625	+	= \$6,625
2/3 to less than full academic year	1,750	1,750	+	= 4,250
1/3 to less than 2/3 academic year	875	875	+	= 2,375
<b>2nd year undergraduate:</b>				
full academic year	3,500	3,500	+	= 7,500
2/3 to less than full academic year	prorated*	prorated*	+	= prorated*
1/3 to less than 2/3 academic year	prorated*	prorated*	+	= prorated*
<b>Subsequent years undergraduate:</b>				
full academic year	5,500	5,500	+	= 10,500
less than full academic year	prorated*	prorated*	+	= prorated*
<b>Graduate or professional student</b>	N/A	8,500	+	= 18,500

\* The maximum loan amount is prorated when the remaining portion of the student's program is less than a full academic year. The prorated amount is calculated based on the number of semester, trimester, or clock hours for which the student enrolls.



If your parents get a Direct PLUS Loan for your expenses, the amount they may borrow is limited only by the cost of attendance at your school minus any other financial aid you receive.<sup>2</sup>

All Direct Loans except Direct Consolidation Loans have a loan origination fee of 4 percent, deducted proportionately from each loan disbursement. This money goes to the federal government to help reduce the government's cost of supporting these low-interest loans.

**Note:** You might have both Federal Family Education Loans (FFELs) and Direct Loans. For example, you might have borrowed an FFEL in the past, or you might transfer to a school that does not participate in Direct Loans.<sup>3</sup> Even if you have a combination of FFELs and Direct Loans, your annual and total loan limits cannot exceed the limits given in the chart on the previous page.

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<sup>2</sup> If your parents can't borrow a Direct PLUS Loan for you because they have an adverse credit history, **and** if you're a dependent undergraduate, you may be eligible to borrow additional amounts in the form of Direct Unsubsidized Loans. For more information, contact your financial aid office.

<sup>3</sup> Generally you may not receive FFELs and Direct Loans for the same academic year. However, there is an exception for transfer students. For example, you could receive a Direct Loan for the first semester and transfer in the second semester to a school that offers only FFELs.




### **Total Limits**

The **overall** limit for any *subsidized* loans you may receive (including a combination of Direct Subsidized Loans and subsidized Federal Stafford Loans) is

- \$23,000 for undergraduate study
- \$65,500 for graduate study, including loans for undergraduate study

The **overall** limit for *subsidized* and *unsubsidized* loans (including a combination of Direct Loans and Federal Stafford Loans) is

- \$23,000 for a dependent undergraduate student
  - \$46,000 for an independent undergraduate student (and certain dependent students)
  - \$138,500 for a graduate or professional student (including loans for undergraduate study)
- 



## Interest Rates

Direct Loan interest rates are variable and are adjusted each year on July 1. However, the interest rate will never be greater than 8.25 percent for Direct Subsidized Loans and Direct Unsubsidized Loans. The interest rate may be less. (In 1995-96, it was 8.25 percent.)

Direct PLUS Loan interest rates also are variable but will never be higher than 9 percent. The interest rate may be less. (In 1995-96, it was 8.98 percent.)

The interest rates for Direct Consolidation Loans are the same as the rates above, based on whether student loans and/or parent loans are included. (For more information on consolidation loans, see page 26.)





## How to Apply for a Direct Loan

Applying is easy. Just fill out a *Free Application for Federal Student Aid* (FAFSA), which you can get from your school. Based on the information you give on the FAFSA, your school will determine your financial aid award, including the amounts of your Direct Subsidized and Unsubsidized Loans, if you're eligible. If your answers to certain questions on the FAFSA indicate you're a dependent student (see page 3 for the definition of this term), your parents may apply for a Direct PLUS Loan, using an application available from your school.

As part of the application process, you'll receive a promissory note to complete. The promissory note is the legal document you sign agreeing to pay back the loan. The note also provides important information about your loan. If your parents are applying for a Direct PLUS Loan, they'll receive a promissory note to complete for their loan. You and your parents will receive copies of the promissory notes after they're signed.

If you have any questions about your loan during the application process, you can call the Loan Origination Center at **1-800-848-0979**.



## After Loan Approval

### *Entrance Counseling*

If you're a first-time borrower, you'll most likely attend an entrance counseling session, but you must, at a minimum, receive entrance counseling materials from your school before your loan money can be credited to your school account or delivered to you. Many of the topics covered in this booklet will be covered in greater detail in the counseling sessions and the written entrance counseling materials.

Be sure you understand all the terms and conditions of your loan and your rights and responsibilities as a borrower. (See pages 31 and 32 of this booklet for a summary of those rights and responsibilities.)



### *Loan Payment*

Your school will pay you in one of two ways:

- by crediting your account with the school for tuition, fees, and other charges. If you have a contract with the school for room and board, the school may also credit your school account to pay for your room and board. Any remaining amount will be paid to you by check, given to you as cash, or—with your permission—transferred electronically to your bank account.
- by paying you the entire amount by check or other means that requires your endorsement or certification.

**Note:** Before each academic year begins, you must reapply for financial aid. Each year, assuming your Direct Loan is approved, your school account will be credited, you'll be paid by check or in cash, or funds will be transferred electronically to your bank account.



## What Happens While You're in School

Each time you receive a loan payment, your financial aid administrator will make sure you're still eligible for the loan proceeds. To stay eligible, you must be enrolled at least half time and must be making satisfactory academic progress in your course of study.

Here are some points to remember:

- You don't have to make payments on your loans while you're enrolled in school at least half time.
- Be sure to keep the school informed if your enrollment status changes—for example, if you drop to less than half time.
- You'll receive information about your loan while you're still in school— this doesn't necessarily mean it's time to begin repayment.



Before you leave school, you must attend an exit counseling session. At that time, your school will give you detailed information about your loan. You'll be counseled about your loan obligations, with the emphasis on selecting a repayment plan and budgeting for loan repayment. You'll also be told about options for postponing repayment, including deferment and forbearance. (See pages 19 and 22.) Your school will most likely tell you the current interest rate, when you'll have to begin repayment, how much your loan will cost you, and how much you'll repay each month.

If you have questions about your loan, you should be able to get the answers during exit counseling. Keep any exit counseling materials your school gives you because this information will be helpful as you repay your loan.



## Repaying Your Loans

### *The Direct Loan Servicing Center*

Repayment will be simple, because the U.S. Department of Education is your lender and will remain your lender. Your payments will go to one place—your Direct Loan Servicing Center. Once you get a loan, the Servicing Center becomes the point of contact for information about your loan(s). The Servicing Center can also help you decide which repayment plan is right for you. You must make sure your Servicing Center has your correct address and telephone number, and you should contact the Servicing Center if you have any questions about, or problems with, loan repayment. See the telephone number and address on page 33.

### *Repayment Begins*

Repayment of your loan begins six months after the day you leave school or drop below half-time enrollment. This six-month period is called the “grace period.” If you return to school at least half time before the grace period ends, repayment of your loan will again be delayed until six months after you finally leave school.

The first payment on Direct Subsidized and Direct Unsubsidized Loans is due within 60 days after the grace period expires. The first payment on a Direct PLUS Loan is due within 60 days after the *final* loan disbursement.

If you have a Direct Subsidized Loan, you don't pay any interest until the grace period expires. If you have a Direct Unsubsidized Loan, interest accumulates on the loan while you're in school and during the grace period. You can either pay this interest as it accumulates or wait until you begin repaying the loan principal (the amount of money you borrowed). If you decide to delay interest repayment, the interest that accumulates will be "capitalized," that is, will be added to your loan principal when you begin repayment. This means your total loan principal will increase.

Whether you have a Direct Subsidized or Unsubsidized Loan, you'll pay interest plus the loan principal; therefore, the total amount you repay will be more than you borrowed. You may prepay your loan—that is, pay all of your loan or make a payment that is larger than agreed upon—at any time without penalty.






## ***Repayment Options***

There are four ways you can repay a Direct Subsidized Loan or Direct Unsubsidized Loan. Direct PLUS Loan borrowers may choose only from the first *three* options given below. Borrowers can choose a plan to fit their financial circumstances and can change plans if their financial circumstances change.


These are the four repayment options:

- The **Standard Repayment Plan** requires fixed monthly payments (at least \$50) over a fixed period of time (up to 10 years). The length of the repayment period depends on the loan amount. This plan usually results in the lowest total interest paid because the repayment period is shorter than under the other plans.
- The **Extended Repayment Plan** allows loan repayment to be extended over a period from generally 12 to 30 years, depending on the total amount borrowed. You'll still pay a fixed amount each month (at least \$50), but your monthly payments usually will be less than under the Standard Repayment Plan. These lower monthly amounts may make repayment more manageable; however, usually you'll pay more interest because the repayment period is longer.



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- The **Graduated Repayment Plan** allows payments to be low at first and increase every two years. Graduated Repayment may be helpful if your income starts out low but will increase steadily. Your monthly payments must be at least half of what you would pay under Standard Repayment. As in the Extended Repayment Plan, the repayment period will vary from generally 12 to 30 years, depending on the total amount borrowed. This extended repayment means your monthly payments may be lower but, again, you'll pay more interest than you would under Standard Repayment.
  - The **Income Contingent Repayment Plan** bases monthly payments on your adjusted gross income (AGI) and the total amount of your Direct Loans. As your income rises or falls each year, your repayment amounts will be adjusted accordingly. Your required monthly payments will not exceed 20 percent of your discretionary income.<sup>4</sup> The repayment period for this plan will not exceed 25 years. After 25 years, any unpaid amount will be discharged, but you'll have to pay taxes on the amount discharged. (Remember, this plan is not an option for Direct PLUS Loan borrowers.)

<sup>4</sup> Discretionary income equals your AGI minus an amount based on the poverty level for your family size, as determined by the U.S. Department of Health and Human Services. You can get more information from your financial aid office or from the Direct Loan Servicing Center.



If, because of exceptional circumstances, you can't repay your loans using one of the repayment plans described, you may be able to work out an alternative repayment plan with your Servicing Center. Such a plan would be provided only on a case-by-case basis.

### ***Choosing a Plan***

You'll receive more detailed information about repayment options at exit counseling and from your Servicing Center so you can select the plan that's right for you. You'll be told what your monthly repayment amounts would be under each plan. Once you've selected a plan, your Servicing Center will send you a repayment schedule for all your Direct Loans, listing the plan you selected and telling you what your monthly payment will be and when your payments will be due. If you don't choose a plan, you'll be placed in the Standard Repayment Plan. (You can change your plan later if you choose.) Parents with a Direct PLUS Loan will receive a repayment schedule after the final disbursement of the loan.



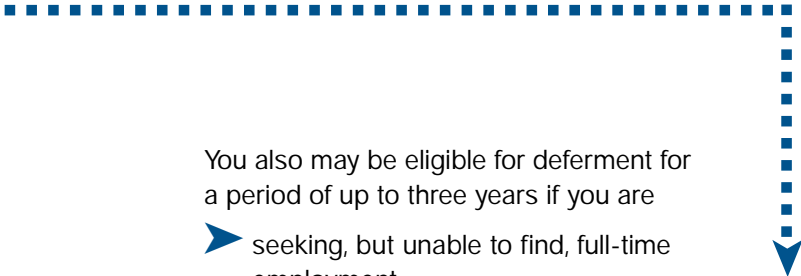
## Options for Postponing Repayment

If you ever have a problem making your monthly loan payments, you may be able to postpone repayment through deferment or forbearance. Each has separate conditions and requirements, as explained below.

### *Deferment*

A deferment means you may postpone making payments on your loan under certain specific conditions. If you have Direct Loans *only*, you may defer repayment if you are

- ▶ enrolled at least half time in a program of study that meets the U.S. Department of Education's requirements for program eligibility (you may not defer repayment while in a medical internship or residency program, except a residency program in dentistry)
- ▶ enrolled in a graduate fellowship program approved by the U.S. Department of Education
- ▶ enrolled in a rehabilitation training program for persons with disabilities that meets the U.S. Department of Education's requirements



You also may be eligible for deferment for a period of up to three years if you are

- seeking, but unable to find, full-time employment
- experiencing, or will experience, economic hardship (talk to the Servicing Center for more information on this deferment)

You may be eligible for additional deferments if, at the time you obtain a Direct Loan, you have an outstanding balance on an FFEL. You can find out about these deferments from your financial aid office.

During deferment of Direct Subsidized Loans, you don't have to pay any principal, and interest isn't charged. For Direct Unsubsidized Loans and Direct PLUS Loans, payments on the principal may be deferred, but interest is charged. You may choose to pay this interest or have it capitalized (added to your principal balance) at the end of the deferment period.



If you have a Direct Consolidation Loan (see page 26 for more information about this type of loan), payment of principal may be deferred. Interest may, however, accumulate during deferment, depending on what loans you've consolidated. Check with the financial aid office or your Direct Loan Servicing Center to find out whether interest will accumulate on your Direct Consolidation Loan.

If you meet one of the deferment conditions and you want to postpone repayment of your loan, you'll need to contact your Servicing Center and ask for the appropriate deferment form. You'll have to provide documentation to prove you meet the requirements for the deferment you're seeking. The deferment form will explain what information you must provide.

Be sure to make loan payments while you're waiting for your deferment to be approved; if you don't, your loan may become delinquent or even go into default (see descriptions of those terms under "What Happens If You Don't Repay—Default").



## ***Forbearance***

If you're unable to make payments on your Direct Loan for reasons such as unexpected personal problems or poor health and you don't qualify for a deferment, you may request forbearance of loan payments. During forbearance, you don't have to make payments, you can extend the time between payments, or you can make smaller payments than originally scheduled. You may request forbearance of principal, interest, or both. Note that even if you receive a forbearance for the interest, it will continue to accumulate during the forbearance period and will be capitalized (added to your loan principal) when the forbearance ends.

You may also receive forbearance if you meet one of the following conditions:

- ▶ You serve in a medical or dental internship or residency.
- ▶ You serve in a position under the National and Community Service Trust Act of 1993.
- ▶ You are obligated to make payments on your federal student loans that are equal to, or greater than, 20 percent of your total monthly gross income.

Contact your Servicing Center to request forbearance. In most cases, you'll be asked to provide documentation showing that you qualify. As with deferments, continue to make payments on your loan while you're waiting for forbearance approval.

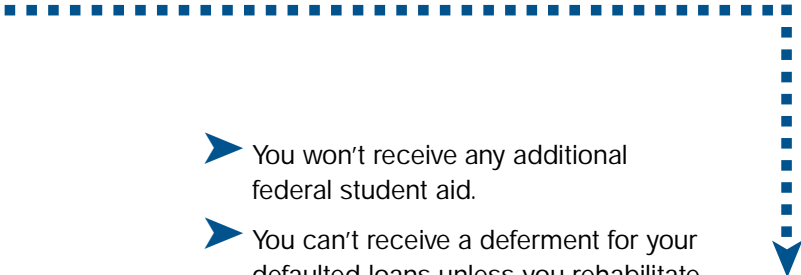


## What Happens If You Don't Repay—Default

The consequences of defaulting on your loan are severe and long-lasting. They can be avoided if you keep your Servicing Center informed of any difficulty in meeting your repayment terms. It's also very important to keep the Servicing Center informed of any changes in your address or telephone number to make sure the Center can reach you.

If you fail to make a payment on time, you're considered delinquent in repaying your loan. If you don't make payments for 180 days, your loan will go into default. Here are some examples of the serious problems you will have if you default on your loan:

- The U.S. Department of Education can immediately demand repayment of the total amount due on the loan.
- The Department will attempt to collect the debt and may charge you for collection costs.
- Your default will be reported to national credit bureaus; negative reports will damage your credit rating and make it very difficult for you to borrow money or make purchases such as a car or house. The default notation will remain on your credit report for up to seven years, even if you arrange to repay the debt before then—unless you “rehabilitate” the loan (see page 24).

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- You won't receive any additional federal student aid.
  - You can't receive a deferment for your defaulted loans unless you rehabilitate them (see below).
  - The Internal Revenue Service can withhold your federal income tax refund(s).
  - Your wages may be garnished.

Obviously, you should avoid default if at all possible. However, if it happens, you can contact your Servicing Center to make satisfactory repayment arrangements that will reestablish your eligibility for federal student aid. Six consecutive, voluntary, on time, full monthly payments constitute satisfactory repayment arrangements. The amount of the payments will be reasonable and affordable, based on your total financial circumstances.

To "rehabilitate" your loan—that is, to bring it out of default—you must make 12 consecutive, voluntary, reasonable, and affordable monthly payments under an agreement with your Servicing Center. Once you make these 12 payments, default information will be removed from your credit record.





## Loan Discharge (Cancellation)

Under a few very specific circumstances, your loan repayment can be discharged (canceled), which means you are released from all obligation to repay your loans:

- ▶ You become totally and permanently disabled. A physician must certify total and permanent disability. Also, the condition can't have existed before you applied for your Direct Loans, unless a doctor certifies that the condition has substantially deteriorated since the loans were made.
- ▶ You die. Your loans will be discharged, and any Direct PLUS Loans your parents borrowed for you will be discharged.
- ▶ You cannot complete a course of study because your school closed or because the school falsely certified your eligibility. If your parents borrowed a Direct PLUS Loan for you, that loan also will be discharged.
- ▶ You file for bankruptcy (in rare cases).

Contact your Servicing Center to apply for a discharge.



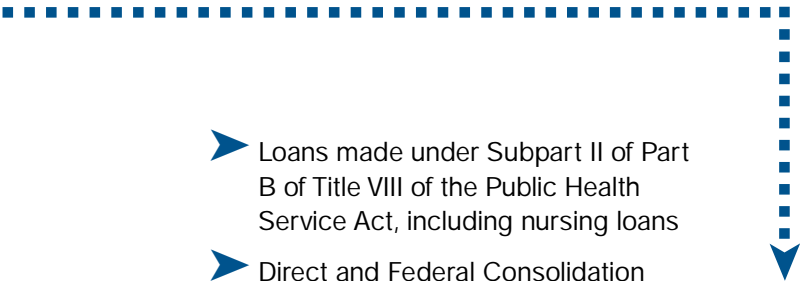
## Loan Consolidation

If you have student loans other than Direct Loans, you may want to apply for a Direct Consolidation Loan. Consolidation means making only one monthly payment to cover all your loans. There may be several advantages for you if you consolidate. Because the interest rate will be the same as for Direct Loans, you may be able to pay less interest than you're paying on your current loans. You may be able to reduce your monthly payments. You can also choose the repayment plan that best suits your financial circumstances.

To consolidate under Direct Loans, you must have at least one Direct Loan or FFEL Program loan.

Listed below are the types of loans that may be consolidated:

- Direct Stafford/Ford Loans (subsidized and unsubsidized)
- FFEL Stafford Loans (subsidized and unsubsidized)
- Direct and Federal PLUS Loans
- Guaranteed Student Loans (GSL)
- Federal Insured Student Loans (FISL)
- Federal Supplemental Loans for Students (SLS)
- Auxiliary Loans to Assist Students (ALAS)
- Federal Perkins Loans
- National Direct/Defense Student Loans (NDSL)
- Health Professions Student Loans (HPSL)
- Health Education Assistance Loans (HEAL)
- Loans for Disadvantaged Students (LDS)

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- ▶ Loans made under Subpart II of Part B of Title VIII of the Public Health Service Act, including nursing loans
  - ▶ Direct and Federal Consolidation Loans

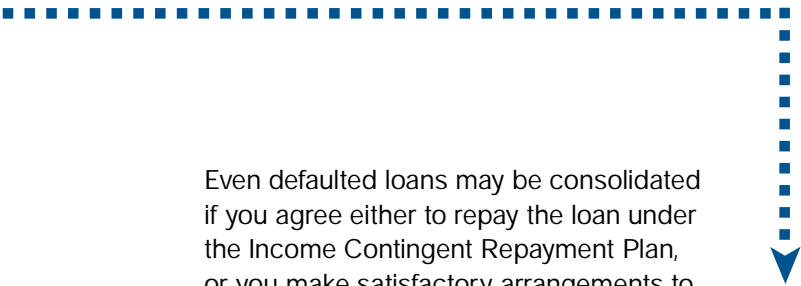
You can consolidate your loans at any time—while you're still in school, during your six-month grace period, or after you begin repayment. If you want to consolidate while you're in school and you're attending a Direct Loan school, you must have at least one Direct Loan *or* FFEL that is in an "in-school" period. If you're attending a non-Direct Loan school, you must have a Direct Loan in an "in-school" period. An "in-school period" begins when the loan is disbursed and ends when the borrower ceases to be enrolled half time. You can consolidate only Direct Loans and FFELs while you're in school; the other types of loans listed above may be consolidated after you leave school.



**Note:** If you want to consolidate during your grace period, you should wait until the last month of the grace period to apply. Repayment on consolidation loans begins within **60 days** of the first loan disbursement, which means your grace period would be cut short if you applied too early.

Once you leave school, you can consolidate an FFEL under Direct Loans only if you can't get an FFEL consolidation loan, or you can't get an FFEL consolidation loan with income-sensitive repayment terms acceptable to you.

Similar conditions apply to parents. They must have an outstanding balance on a Direct PLUS Loan or a Federal PLUS Loan (under the FFEL Program). Parents must not have an adverse credit history or, if so, must either obtain an endorser for the loan who does not have an adverse credit history or must document extenuating circumstances.



Even defaulted loans may be consolidated if you agree either to repay the loan under the Income Contingent Repayment Plan, or you make satisfactory arrangements to repay the loan (for consolidation purposes, defined as three consecutive, voluntary, on time, full monthly payments).

**Note:** A married couple may consolidate their loans jointly if at least one spouse meets the requirements for loan consolidation. Both will be responsible for repayment of the loan, even if one spouse dies or they separate or divorce.

For more information on consolidation, contact your financial aid office or the Direct Loan Servicing Center.



## Borrower Rights and Responsibilities

As a Direct Loan borrower, you have certain rights and responsibilities. You'll receive a complete list of these when you receive your promissory note. Listed below are some to keep in mind.

You have a right to

- written information about your loan obligation—including information on loan consolidation—and a list of your rights and responsibilities as a borrower
- information—before you begin repayment—on interest rates, loan fees and how they are collected, and the balance owed on your loans
- a loan repayment schedule
- an explanation of default and its consequences
- an explanation of the grace period and of federal interest benefits, if you qualify for those benefits
- prepayment of your loan without penalty
- forbearance, if you qualify (forbearance is not granted automatically; you must request it, and the U.S. Department of Education decides if you qualify)



It is your responsibility to

- repay the loan according to the loan repayment schedule
- notify your Direct Loan Servicing Center in advance if you will be late making a payment
- notify your Servicing Center of anything that affects your ability to repay or affects your eligibility for deferment or discharge (cancellation)
- notify your school (if you are still enrolled) and your Servicing Center of any change in your name or address or any change in your employer's name or address
- notify your Servicing Center if you fail to enroll for the period covered by the loan, or if you graduate, withdraw from school, begin attending less than half time, or transfer to another school
- attend an exit counseling interview before you leave school





## HOW TO REACH US

### *Applicant Services/Loan Servicing* **(800) 848-0979**

- general information about Direct Loans
- questions about application processing
- payment information
- changing repayment plans
- deferment and forbearance forms
- address/name changes
- working hours are from 8 a.m. to 8:30 p.m. (EST)  
Monday-Friday

U.S. Department of Education  
Borrower Services Department  
Direct Loan Servicing Center  
P.O. Box 4609  
Utica, NY 13504-4609  
TDD: (800) 848-0983

Updated information is also available on the Direct Loan Web site  
on the Internet at **<http://www.ed.gov/offices/OPE/DirectLoan/>**

*Telephone numbers and information are subject to change without notice.*







# Contents

Direct Loans—Money for School Directly to You .....	1
Types of Direct Loans .....	3
Loan Amounts .....	4
Limit per Academic Year .....	4
Total Limits .....	7
Interest Rates .....	8
How to Apply for a Direct Loan .....	9
After Loan Approval... ..	10
Entrance Counseling .....	10
Loan Payment .....	11
What Happens While You're in School .....	12
Repaying Your Loans .....	14
The Direct Loan Servicing Center .....	14
Repayment Options .....	16
Choosing a Plan .....	18
Options for Postponing Repayment .....	19
Deferment .....	19
Forbearance .....	22
What Happens If You Don't Repay—Default .....	23
Loan Discharge (Cancellation) .....	25
Loan Consolidation .....	26
Borrower Rights and Responsibilities .....	31
How to Reach Us .....	33

